

CITY OF ALBIA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325

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City of Albia

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Clark	Mayor	January 1, 2012
Gene Behrens	Council Member	January 1, 2014
Merle Regenold	Council Member	January 1, 2012
Jeff Stoffa	Council Member	January 1, 2014
Cindy See	Council Member	January 1, 2012
Ron Yarkosky	Council Member	January 1, 2012
Rowland Barnes	Council Member	January 1, 2014
Linda Heller	City Clerk/Treasurer	January 1, 2012
Breckenridge Law P.C.	Attorney	January 1, 2012

Library Board

Joe Starcevic	Library Trustee	July 1, 2011
Sally Bachman	Library Trustee	July 1, 2012
Dave Paxton	Library Trustee	July 1, 2012
Lelah Marlin	Library Trustee	July 1, 2014
Lois Mick	Library Trustee	July 1, 2014
Matt Foster	Library Trustee	July 1, 2014
Marty Ryan	Library Trustee	July 1, 2014
Sharon Crall	Library Trustee	July 1, 2014
Sue Goode	Library Trustee	July 1, 2014

Cemetery Board

Hank Betz	Cemetery Trustee	July 1, 2012
Terri Bender	Cemetery Trustee	July 1, 2014
Sandy Clark	Cemetery Trustee	July 1, 2014
Chris Yarkosky	Cemetery Trustee	July 1, 2016
Richard Brock	Cemetery Trustee	July 1, 2016

City of Albia

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CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Albia, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Albia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Albia, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Albia as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Albia as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards we have also issued our report dated January 31, 2012, on our consideration of the City of Albia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albia's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Co., LLP
Certified Public Accountants

January 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Albia provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- * Receipts of the City's governmental activities increased 6.47%, or approximately \$225,000, from fiscal 2010 to fiscal 2011. Property tax increased approximately \$190,000 and bond and loan proceeds increased approximately \$172,000.
- * Disbursements of the City's governmental activities increased 2%, or approximately \$59,000, in fiscal 2011 from fiscal 2010. Public safety disbursements increased approximately \$72,000, culture and recreation disbursements increased approximately \$32,000, debt service disbursements increased approximately \$57,000, and capital projects disbursements decreased approximately \$51,000.
- * The City's total cash basis net assets increased approximately \$706,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$707,000 and the assets of the business type activities decreased by approximately \$1,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the nonmajor proprietary funds, and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets present the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- (1) Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- (2) Business Type Activities include the sanitary sewer system, landfill, airport, and the rural fire department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Airport Fund and Sewer Fund, considered to be major funds of the City. The Landfill Fund and the Rural Fire Department Fund are considered to be non-major funds of the City.

The required financial statements for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$2.913 million to approximately \$3.620 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Year ended <u>June 30, 2010</u>	Year ended <u>June 30, 2011</u>
Receipts:		
Program receipts:		
Charges for service	\$ 161	146
Operating grants, contributions and restricted interest	452	458
Capital grants, contributions and restricted interest	179	159
General receipts:		
Property tax	1,214	1,404
Local option sales tax	700	656
Grants and contributions not restricted to specific purposes	18	18
Unrestricted investment earnings	61	9
Bond and loan proceeds	664	836
Miscellaneous	25	12
Sale of assets	<u>3</u>	<u>4</u>
Total receipts	<u>3,477</u>	<u>3,702</u>
Disbursements:		
Public safety	550	622
Public works	464	453
Culture and recreation	368	400
Community and economic development	13	1
General government	218	190
Debt service	670	727
Capital projects	<u>688</u>	<u>637</u>
Total disbursements	<u>2,971</u>	<u>3,030</u>
Change in cash basis net assets before transfers	506	672
Transfers, net	<u>40</u>	<u>35</u>
Change in cash basis net assets	546	707
Cash basis net assets beginning of year	<u>2,367</u>	<u>2,913</u>
Cash basis net assets end of year	<u>\$2,913</u>	<u>3,620</u>

The City's total receipts for governmental activities increased 6.47%, or approximately \$225,000. The total cost of all programs and services increased approximately \$59,000, or 2%, with no new programs added this year. The significant increase in receipts was primarily the result of an increase in bond and loan proceeds.

The City's property tax collections increased approximately \$190,000 from fiscal 2010 to fiscal 2011. Approximately \$1,214,000 and \$1,404,000 in property taxes were collected in fiscal 2010 and 2011, respectively. Property tax receipts are budgeted to remain relatively the same in fiscal 2012.

The cost of all governmental activities this year was approximately \$3.030 million compared to approximately \$2.971 million last year. However, as shown on the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only \$2.268 million because some of the cost was paid by those directly benefited from the programs (\$146,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$617,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2011 from approximately \$793,000 to approximately \$763,000, principally due to less federal highway grant funds received in fiscal 2011 compared to fiscal 2010.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended <u>June 30, 2010</u>	Year ended <u>June 30, 2011</u>
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 319	319
Landfill	16	17
Airport	8	6
Rural fire department	34	42
Capital grants, contributions and restricted interest	21	174
General receipts:		
Unrestricted interest on investments	-	1
Miscellaneous	<u>1</u>	<u>-</u>
Total receipts	<u>399</u>	<u>559</u>
Disbursements:		
Sewer	312	260
Landfill	4	39
Airport	29	199
Rural fire department	<u>31</u>	<u>27</u>
Total disbursements	<u>376</u>	<u>525</u>
Change in cash basis net assets before transfers	23	34
Transfers, net	<u>(40)</u>	<u>(35)</u>
Change in cash basis net assets	(17)	(1)
Cash basis net assets beginning of year	<u>197</u>	<u>180</u>
Cash basis net assets end of year	<u>\$ 180</u>	<u>179</u>

Total business type activities receipts for the fiscal year were approximately \$.559 million compared to approximately \$.399 million last year. This increase was due primarily to the grants received in fiscal 2011 for an airport project. Total cash balance decreased by approximately \$1,000 from the prior year. Total disbursements for the fiscal year increased by 40% to approximately \$.525 million. This increase is due to costs incurred on a major capital improvement at the airport.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Albia completed the year, its governmental funds reported a combined fund balance of \$3,620,121, an increase of \$706,813 above last year's total of \$2,913,308. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$5,973 from the prior year to \$209,603. The City has been watching the General Fund very close in order to stabilize the balance in this fund.
- The Special Revenue, Road Use Tax Fund cash balance increased \$44,575 during the fiscal year. This increase in cash is primarily due to watching our disbursements very close and only purchasing what is absolutely necessary.
- The Special Revenue, Aquatic Center Fund cash balance increased by \$420,941 during the fiscal year to a total of \$2,614,496. This increase is due to the receipt of local option sales taxes in excess of the related costs and debt service payments. We are receiving a lot more local option sales tax funds than we ever expected.
- The Special Revenue, Employee Benefits Fund cash balance increased \$15,380 to \$171,364 during the fiscal year. In the fiscal year, the City just levied more than related costs incurred in this fund.
- The Debt Service Fund cash balance decreased \$19,297 to \$21,328. This decrease was just due to cut back in the property tax levy in fiscal year 2011.
- The Capital Projects Fund cash balance increased \$234,425 to \$205,827. Proceeds from the sale of bonds were received into this fund in fiscal 2011, and the proceeds were used to pay the costs of street repair in the City in fiscal 2011. The City received reimbursement from the State of Iowa in fiscal year 2011. The City plans to use this money to pay for the costs of street repair.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Airport Fund cash balance decreased \$18,713 to \$5,074. This decrease is primarily due to the costs incurred by City for a major capital improvement at the airport.
- The Enterprise, Sewer Fund cash balance increased by \$28,613 to \$88,538, due primarily to the fact that the sewer debt payment amount decreased from the prior year.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time. The budget was amended because of equipment purchases and capital projects which were greater than originally anticipated.

In the year ended June 30, 2011, disbursements did not exceed the amounts budgeted for all functions.

The City's receipts were \$72,581 less than budgeted. This was primarily due to the City receiving less charges for service receipts than anticipated, even after the budget amendment.

DEBT ADMINISTRATION

At June 30, 2011, the City of Albia had approximately \$4,119,000 in bonds and other long-term debt, compared to approximately \$3,839,000 last year.

Outstanding Debt at Year-End (Expressed in Thousands)

	<u>June 30, 2010</u>	<u>June 30, 2011</u>
General Obligation Bonds and Notes	\$3,751	4,045
Revenue Note	75	65
Lease – Purchase Agreement	<u>13</u>	<u>9</u>
Total	<u>\$3,839</u>	<u>4,119</u>

Debt increased as a result new debt obtained in the fiscal year. New debt of \$845,000 was issued in the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2009	\$123,834,295
Debt Limit	<u>.05</u>
	<u>\$6,191,715</u>

The City's outstanding general obligation debt of \$4,045,000 is below the constitutional debt limit of \$6,191,715.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Albia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and the rising costs of employee benefits.

The across the board budget cuts will also reduce our property tax amounts received because the State of Iowa will not be fully funding the various property tax credits.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are approximately \$4.0 million, keeping in line with 2011 budget year.

CONTRACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Heller, City Clerk, 120 South "A" Street, Albia, Iowa 52531.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

Functions / Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 622,247	30,584	4,498	47,900	(539,265)	-	(539,265)
Public works	453,114	6,497	358,563	26,568	(61,486)	-	(61,486)
Culture and recreation	399,970	95,963	58,047	33,462	(212,498)	-	(212,498)
Community and economic development	749	-	-	-	(749)	-	(749)
General government	189,982	12,716	-	-	(177,266)	-	(177,266)
Debt service	727,495	-	36,662	-	(690,833)	-	(690,833)
Capital projects	636,784	-	-	51,110	(585,674)	-	(585,674)
Total governmental activities	3,030,341	145,760	457,770	159,040	(2,267,771)	-	(2,267,771)
Business type activities:							
Sewer	260,695	318,531	-	-	-	57,836	57,836
Airport	199,596	6,425	-	174,458	-	(18,713)	(18,713)
Landfill	39,460	16,883	-	-	-	(22,577)	(22,577)
Rural fire department	26,702	42,475	-	-	-	15,773	15,773
Total business type activities	526,453	384,314	-	174,458	-	32,319	32,319
Total	\$ 3,556,794	530,074	457,770	333,498	(2,267,771)	32,319	(2,235,452)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					990,212	-	990,212
Debt service					414,001	-	414,001
Local option sales tax					656,203	-	656,203
Grants and contributions not restricted to specific purposes					17,716	-	17,716
Unrestricted interest on investments					8,667	1,141	9,808
Bond proceeds (net of \$8,957 discount)					836,043	-	836,043
Miscellaneous					12,120	34	12,154
Sale of capital assets					4,327	-	4,327
Transfers					35,295	(35,295)	-
Total general receipts and transfers					2,974,584	(34,120)	2,940,464
Change in cash basis net assets					706,813	(1,801)	705,012
Cash basis net assets beginning of year					2,913,308	180,549	3,093,857
Cash basis net assets end of year					\$ 3,620,121	178,748	3,798,869
Cash Basis Net Assets							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 84,850	-	84,850
Library endowment					92,666	-	92,666
Expendable:							
Insurance					15,281	-	15,281
Debt service					21,328	18,544	39,872
Streets					43,403	-	43,403
Other purposes					3,168,271	-	3,168,271
Unrestricted					194,322	160,204	354,526
Total cash basis net assets					\$ 3,620,121	178,748	3,798,869

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue				Debt Service	Capital Projects	Nonmajor	Total
	General	Road Use Tax	Aquatic Center	Employee Benefits				
Receipts:								
Property tax	\$ 679,686	-	-	310,526	414,001	-	-	1,404,213
Other city tax	17,716	-	656,203	-	-	-	-	673,919
Licenses and permits	12,716	-	-	-	-	-	-	12,716
Use of money and property	13,762	-	35,606	-	1,056	-	2,030	52,454
Intergovernmental	125,605	358,563	-	-	-	51,110	6,901	542,179
Charges for service	101,446	-	-	-	-	-	-	101,446
Miscellaneous	58,098	-	282	127	-	-	16,055	74,562
Total receipts	1,009,029	358,563	692,091	310,653	415,057	51,110	24,986	2,861,489
Disbursements:								
Operating:								
Public safety	466,820	-	-	154,847	-	-	580	622,247
Public works	67,976	313,988	-	71,150	-	-	-	453,114
Culture and recreation	301,108	-	35,748	43,546	-	-	19,568	399,970
Community and economic development	-	-	-	-	-	-	749	749
General government	164,252	-	-	25,730	-	-	-	189,982
Debt service	-	-	-	-	727,495	-	-	727,495
Capital projects	-	-	-	-	-	636,784	-	636,784
Total disbursements	1,000,156	313,988	35,748	295,273	727,495	636,784	20,897	3,030,341
Excess (deficiency) of receipts over (under) disbursements	8,873	44,575	656,343	15,380	(312,438)	(585,674)	4,089	(168,852)
Other financing sources (uses):								
Bond proceeds (net of \$8,957 discount)	-	-	-	-	15,944	820,099	-	836,043
Sale of capital assets	3,600	-	-	-	-	-	727	4,327
Operating transfers in	-	-	-	-	277,197	-	-	277,197
Operating transfers out	(6,500)	-	(235,402)	-	-	-	-	(241,902)
Total other financing sources (uses)	(2,900)	-	(235,402)	-	293,141	820,099	727	875,665
Net change in cash balances	5,973	44,575	420,941	15,380	(19,297)	234,425	4,816	706,813
Cash balances beginning of year, as restated	203,630	(1,172)	2,193,555	155,984	40,625	(28,598)	349,284	2,913,308
Cash balances end of year	\$ 209,603	43,403	2,614,496	171,364	21,328	205,827	354,100	3,620,121
Cash Basis Fund Balances								
Nonspendable:								
Cemetery perpetual care	\$ -	-	-	-	-	-	84,850	84,850
Library endowment	-	-	-	-	-	-	92,666	92,666
Restricted for:								
Insurance	15,281	-	-	-	-	-	-	15,281
Debt service	-	-	-	-	21,328	-	-	21,328
Streets	-	43,403	-	-	-	-	-	43,403
Other purposes	-	-	2,614,496	171,364	-	205,827	176,584	3,168,271
Assigned	24,911	-	-	-	-	-	-	24,911
Unassigned	169,411	-	-	-	-	-	-	169,411
Total cash basis fund balances	\$ 209,603	43,403	2,614,496	171,364	21,328	205,827	354,100	3,620,121

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise			
	Sewer	Airport	Nonmajor	Total
Operating receipts:				
Use of money and property	\$ -	6,425	-	6,425
Charges for service	317,679	-	59,358	377,037
Miscellaneous	852	-	-	852
Total operating receipts	318,531	6,425	59,358	384,314
Operating disbursements:				
Business type activities	221,016	4,907	53,396	279,319
Total operating disbursements	221,016	4,907	53,396	279,319
Excess of operating receipts over operating disbursements	97,515	1,518	5,962	104,995
Non-operating receipts (disbursements):				
Intergovernmental	-	174,458	-	174,458
Interest on investments	1,107	-	34	1,141
Miscellaneous	-	-	34	34
Debt service	-	-	(12,766)	(12,766)
Capital projects	(39,679)	(194,689)	-	(234,368)
Net non-operating receipts (disbursements)	(38,572)	(20,231)	(12,698)	(71,501)
Excess (deficiency) of receipts over (under) disbursements	58,943	(18,713)	(6,736)	33,494
Other financing sources (uses):				
Operating transfers in	-	-	6,500	6,500
Operating transfers out	(30,330)	-	(11,465)	(41,795)
Total other financing sources (uses)	(30,330)	-	(4,965)	(35,295)
Net change in cash balances	28,613	(18,713)	(11,701)	(1,801)
Cash balances beginning of year	59,925	23,787	96,837	180,549
Cash balances end of year	\$ 88,538	5,074	85,136	178,748
Cash Basis Fund Balances				
Restricted for debt service	\$ -	-	18,544	18,544
Unrestricted	88,538	5,074	66,592	160,204
Total cash basis fund balances	\$ 88,538	5,074	85,136	178,748

See notes to financial statements.

City of Albia

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Albia is a political subdivision of the State of Iowa located in Monroe County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides sewer utilities and airport services for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, City of Albia has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Albia (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

The Albia Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

The Fire/Rescue Association of Albia, Iowa was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Fire/Rescue Association of Albia, Iowa is to support the activities of the Albia, Iowa fire department.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Monroe County Assessor's Conference Board and the Monroe County Joint E-911 Service Board.

Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in following categories/components

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary funds are aggregated and reported as nonmajor governmental funds and nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Aquatic Center Fund is used to account for the local option sales tax collections to be used for the related costs and debt associated with the aquatic center.

The Employee Benefits Fund is utilized to account for property tax and other receipts to be used for the payment of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for bond proceeds and government grants to be used for costs associated with major road construction projects and the purchase of capital equipment.

The City reports the following major proprietary funds:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Airport Fund accounts for the operation and maintenance of the City's airport operations.

C. Measurement Focus and Basis of Accounting

The City of Albia maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

Because the City's cash in banks exceeded the depository resolution amount, the City's deposits in banks at June 30, 2011, and at other times during the year, were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. At June 30, 2011, the City exceeded their depository resolution at one financial institution by \$287,069.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue note are as follows:

Year Ending June 30,	General Obligation					
	Bonds and Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 545,000	\$ 142,975	\$ 10,083	\$ 2,683	\$ 555,083	\$ 145,658
2013	540,000	124,256	10,499	2,267	550,499	126,523
2014	540,000	105,307	10,932	1,834	550,932	107,141
2015	575,000	85,734	11,383	1,383	586,383	87,117
2016	540,000	64,182	11,852	914	551,852	65,096
2017	265,000	43,400	10,302	425	275,302	43,825
2018	265,000	35,187	-	-	265,000	35,187
2019	275,000	26,537	-	-	275,000	26,537
2020	290,000	17,207	-	-	290,000	17,207
2021	105,000	6,982	-	-	105,000	6,982
2022	105,000	3,570	-	-	105,000	3,570
	<u>\$ 4,045,000</u>	<u>\$ 655,337</u>	<u>\$ 65,051</u>	<u>\$ 9,506</u>	<u>\$ 4,110,051</u>	<u>\$ 664,843</u>

Revenue Note

The City has pledged future township fire receipts, net of specified operating disbursements, to repay \$102,900 in a fire department revenue note issued in October, 2006. Proceeds from the note provided financing for the purchase of a new fire truck. The note is payable solely from township fire net receipts and is payable through fiscal year 2017. Annual principal and interest payments on the note are expected to require less than 45 percent of net receipts. The total principal and interest remaining to be paid on the note is \$74,557. For the current year, principal and interest paid and total customer net receipts were \$12,766 and \$28,539 respectively.

The note is payable to the U.S. Department of Agriculture (USDA) in annual installments of \$12,766, including interest at 4.125% per annum. During the year ended June 30, 2011, a payment of \$12,766 was made to the USDA, leaving a principal balance due at June 30, 2011 of \$65,051.

The resolution for the issuance of the fire department revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) The City shall make annual payments of \$12,766 to the USDA, including interest at 4.125%, per annum, in fiscal years 2008 through 2017, inclusive.
- (c) Sufficient monthly transfers shall be made to a fire department revenue note sinking account for the purpose of making the above payments when due.
- (d) Additional monthly transfers of \$107 per month until \$12,166 is accumulated shall be made to a fire department revenue note reserve account until a specific maximum balance has been accumulated. This account is restricted for making the annual principal and interest payments whenever there is insufficient money in the fire department revenue note sinking account.

The City's balance in the fire department revenue note reserve account was deficient by \$107 as of June 30, 2011. As a result, it appears the City is technically in non-compliance with the USDA loan requirements in relation to this loan.

(4) Lease Purchase Obligations

The City is purchasing a lawn mower under a capital lease contract. Future payments in relation to this lease are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2012	\$ 4,233	\$ 502	\$ 4,735
2013	4,553	182	4,735
Total	<u>\$ 8,786</u>	<u>\$ 684</u>	<u>\$ 9,470</u>

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$53,168, \$46,801 and \$43,416, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 17 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and the plan members are \$461.71 for single coverage, \$945.58 for employee/spouse coverage, \$832.50/\$874.01 for employee/dependent coverage, and \$1,349.68/\$1,416.98 for family coverage. The same monthly premium applies to retirees. The difference in the premiums for the same group represents differences in the types of coverage provided. For the year ended June 30, 2011, the City contributed \$182,109 and plan members eligible for benefits contributed \$3,746 to the plan.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, holiday and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2011 primarily relating to the General Fund, was \$26,281. The liability has been computed based on rates of pay in effect at June 30, 2011.

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Aquatic Center	\$ 235,402
	Enterprise:	
	Sewer	30,330
	Rural Fire Department	11,465
		<u>277,197</u>
Enterprise:		
Rural Fire Department	General	<u>6,500</u>
Total		<u><u>\$ 283,697</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) **Related Party Transactions**

The City had business transactions between the City and City officials, totaling \$3,774 during the year ended June 30, 2011.

(10) **Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current

year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$55,760.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Contingency

In prior years, the City received payments in lieu of taxes from the local housing agency. However it was later determined that some of these funds should have been distributed to the other political subdivisions in the county. The City Attorney's position was that the City owed the other political subdivisions in the County for the past five years only, which would amount to approximately \$21,000. However, in fiscal year 2004, the City agreed to pay approximately \$64,000 to the other political subdivisions in settlement of the payments in lieu of taxes from the local housing agency. The City and other political subdivisions signed an agreement whereby the other political subdivisions will receive the City's share of the payments in lieu of taxes until the City's liability has been satisfied. At June 30, 2011, the City owed approximately \$43,000 to the other political subdivisions in settlement of the payments in lieu of taxes from the local housing agency.

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(12) Commitments

The City has committed \$10,000 to be paid to two local organizations. These commitments are expected to be paid over the next five years.

The City has entered into a street construction project as of June 30, 2011. Approximately \$550,000 remains to be paid on this project. Payment will be made on this project as work is completed. The State of Iowa will reimburse the City for 80% of these costs, with the balance, or 20%, paid for by the City from existing cash reserves. It is anticipated that this project will be completed in fiscal year 2012.

(13) Fund Balance

The City's assigned fund balance in the General Fund as of June 30, 2011 consists of the following:

Purpose	Amount
Library	\$ 1,446
Cemetery	844
Fire Protection	2,454
Park	13,265
Community Policing	6,902
Total	<u>\$ 24,911</u>

(14) Subsequent Events

The City has evaluated all subsequent events through January 31, 2012, the date the financial statements were available to be issued.

(15) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications are as follows:

	General	Special Revenue - Police	Emergency Levy	Capital Projects
Balances June 30, 2010, as previously reported	\$ 202,958	\$ 20,854	\$ (4,493)	\$ (29,463)
Change in fund type classification per implementation of GASB Statement No. 54	672	(6,030)	4,493	865
Balances July 1, 2010, as restated	<u>\$ 203,630</u>	<u>\$ 14,824</u>	<u>\$ -</u>	<u>\$ (28,598)</u>

Required Supplementary Information

City of Albia

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 1,404,213	-	1,404,213	1,384,447	1,384,447	19,766
Other city tax	673,919	-	673,919	635,320	635,320	38,599
Licenses and permits	12,716	-	12,716	12,000	12,000	716
Use of money and property	52,454	7,566	60,020	46,900	46,900	13,120
Intergovernmental	542,179	174,458	716,637	563,250	664,150	52,487
Charges for service	101,446	377,037	478,483	749,200	749,200	(270,717)
Miscellaneous	74,562	886	75,448	2,000	2,000	73,448
Total receipts	2,861,489	559,947	3,421,436	3,393,117	3,494,017	(72,581)
Disbursements:						
Public safety	622,247	-	622,247	587,175	662,175	39,928
Public works	453,114	-	453,114	401,530	466,530	13,416
Culture and recreation	399,970	-	399,970	423,542	448,542	48,572
Community and economic development	749	-	749	5,000	5,000	4,251
General government	189,982	-	189,982	194,313	204,313	14,331
Debt service	727,495	-	727,495	677,578	732,578	5,083
Capital projects	636,784	-	636,784	840,000	890,000	253,216
Business type activities	-	526,453	526,453	637,438	677,438	150,985
Total disbursements	3,030,341	526,453	3,556,794	3,766,576	4,086,576	529,782
Excess (deficiency) of receipts over (under) disbursements	(168,852)	33,494	(135,358)	(373,459)	(592,559)	457,201
Other financing sources, net	875,665	(35,295)	840,370	840,000	840,000	370
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	706,813	(1,801)	705,012	466,541	247,441	457,571
Balances beginning of year	2,913,308	180,549	3,093,857	3,029,943	3,029,943	63,914
Balances end of year	\$ 3,620,121	178,748	3,798,869	3,496,484	3,277,384	521,485

See accompanying independent auditor's report.

City of Albia

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$320,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue				Permanent		Total
	Cooper Estate Bequest	Historical Preservation Board	Police Department	Library	Cemetery Perpetual Care	Library Endowment	
Receipts:							
Use of money and property	\$ 1,796	36	-	198	-	-	2,030
Intergovernmental	-	-	-	6,901	-	-	6,901
Miscellaneous	-	-	173	14,988	894	-	16,055
Total receipts	1,796	36	173	22,087	894	-	24,986
Disbursements:							
Operating:							
Public safety	-	-	580	-	-	-	580
Culture and recreation	-	-	-	19,568	-	-	19,568
Community and economic development	749	-	-	-	-	-	749
Total disbursements	749	-	580	19,568	-	-	20,897
Excess (deficiency) of receipts over (under) disbursements	1,047	36	(407)	2,519	894	-	4,089
Other financing sources (uses):							
Sale of capital assets	-	-	727	-	-	-	727
Total other financing sources (uses)	-	-	727	-	-	-	727
Net change in cash balances	1,047	36	320	2,519	894	-	4,816
Cash balances beginning of year, as restated	134,016	2,875	14,824	20,947	83,956	92,666	349,284
Cash balances end of year	\$ 135,063	2,911	15,144	23,466	84,850	92,666	354,100
Cash Basis Fund Balances							
Nonspendable:							
Cemetery perpetual care	\$ -	-	-	-	84,850	-	84,850
Library endowment	-	-	-	-	-	92,666	92,666
Restricted for other purposes	135,063	2,911	15,144	23,466	-	-	176,584
Total cash basis fund balances	\$ 135,063	2,911	15,144	23,466	84,850	92,666	354,100

See accompanying independent auditor's report.

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise		
	Landfill	Rural Fire Department	Total
Operating receipts:			
Charges for service	\$ 16,883	42,475	59,358
Total operating receipts	16,883	42,475	59,358
Operating disbursements:			
Business type activities	39,460	13,936	53,396
Total operating disbursements	39,460	13,936	53,396
Excess (deficiency) of operating receipts over (under) operating disbursements	(22,577)	28,539	5,962
Non-operating receipts (disbursements):			
Interest on investments	-	34	34
Miscellaneous	-	34	34
Debt service	-	(12,766)	(12,766)
Net non-operating receipts (disbursements)	-	(12,698)	(12,698)
Excess (deficiency) of receipts over (under) disbursements	(22,577)	15,841	(6,736)
Other financing sources (uses):			
Operating transfers in	-	6,500	6,500
Operating transfers out	-	(11,465)	(11,465)
Total other financing sources (uses)	-	(4,965)	(4,965)
Net change in cash balances	(22,577)	10,876	(11,701)
Cash balances beginning of year	89,045	7,792	96,837
Cash balances end of year	\$ 66,468	18,668	85,136
Cash Basis Fund Balances			
Restricted for debt service	\$ -	18,544	18,544
Unrestricted	66,468	124	66,592
Total cash basis fund balances	\$ 66,468	18,668	85,136

See accompanying independent auditor's report.

City of Albion

Schedule 3

Schedule of Indebtedness

Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes-									
Fire Equipment Note	May 4, 1999	4.23%	\$ 108,000	11,000	-	11,000	-	465	-
Corporate Purpose Bonds	December 1, 2002	1.90 to 4.35%	520,000	260,000	-	50,000	210,000	10,660	-
Swimming Pool Bonds	December 1, 2003	2.25 to 4.00%	2,000,000	1,370,000	-	210,000	1,160,000	50,303	-
Corporate Purpose Bonds	May 25, 2006	3.70 to 4.05%	1,345,000	835,000	-	130,000	705,000	32,817	-
Street Improvement Bonds	September 1, 2007	3.75 to 4.10%	250,000	155,000	-	25,000	130,000	6,174	-
Corporate Purpose Bonds	May 1, 2008	3.10 to 3.80%	640,000	450,000	-	100,000	350,000	15,513	-
Street Improvement Bonds	August 1, 2009	3.25 to 3.75%	670,000	670,000	-	-	670,000	23,618	-
Corporate Purpose Bonds	September 1, 2010	1.25 to 3.40%	845,000	-	845,000	25,000	820,000	16,564	-
Total			\$ 3,751,000	\$ 3,751,000	845,000	551,000	4,045,000	156,114	-
Revenue Note-									
Fire Department	October 30, 2006	4.125%	\$ 102,900	74,733	-	9,682	65,051	3,084	-
Lease Purchase Agreement-									
Equipment	June 3, 2008	7.95%	\$ 21,396	13,408	-	4,622	8,786	974	-

See accompanying independent auditor's report.

Bond and Note Maturities

June 30, 2011

[illegible]

Year Ending June 30,	Revenue Note	
	Fire Department	
	Issued October 30, 2006	Interest
	Rates	Amount
2012	4.125%	\$ 10,083
2013	4.125%	10,499
2014	4.125%	10,932
2015	4.125%	11,383
2016	4.125%	11,852
2017	4.125%	10,302
		\$ 65,051

See accompanying independent auditor's report.

City of Albia

Schedule 5

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Eight Years

	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:								
Property tax	\$ 1,404,213	1,213,781	1,259,475	1,194,235	1,171,575	1,083,508	946,940	950,378
Other city tax	673,919	717,285	821,020	720,239	802,383	592,594	395,200	132,780
Licenses and permits	12,716	18,261	13,035	14,213	10,027	12,467	12,251	10,933
Use of money and property	52,454	66,274	80,900	49,674	34,441	18,817	50,775	51,900
Intergovernmental	542,179	608,350	692,753	399,788	552,749	815,230	491,131	403,254
Charges for service	101,446	108,171	101,782	142,031	152,345	78,802	23,630	6,588
Special assessments	-	-	-	-	-	-	-	5,269
Miscellaneous	74,562	77,634	92,487	45,622	147,615	113,930	46,933	123,574
Total	\$ 2,861,489	2,809,756	3,061,452	2,565,802	2,871,135	2,715,348	1,966,860	1,684,676

Disbursements:								
Operating:								
Public safety	\$ 622,247	550,295	499,768	539,780	682,761	504,928	523,795	452,930
Public works	453,114	463,730	433,586	485,546	421,834	369,213	362,559	352,137
Culture and recreation	399,970	368,501	292,741	289,273	302,258	233,024	152,510	193,891
Community and economic development	749	13,046	9,185	46,670	2,477	11,714	32,956	47,637
General government	189,982	217,841	225,846	253,739	299,152	301,257	228,492	289,948
Debt service	727,495	669,920	633,696	1,086,975	620,756	1,478,044	417,219	387,104
Capital projects	636,784	688,093	743,120	197,074	635,254	1,275,365	1,867,844	235,007
Total	\$ 3,030,341	2,971,426	2,837,942	2,899,057	2,964,492	4,173,545	3,585,375	1,958,654

See accompanying independent auditor's report.

PEAK & CO., LLP
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Albia, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 31, 2012. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Albia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Albia's internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Albia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Albia's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11, I-B-11, I-C-11 and I-D-11 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-E-11, I-F-11 and I-G-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Albia's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Albia's responses and, accordingly, we do not express an opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Albia and other parties to whom the City of Albia may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Albia during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Co., LLP
Certified Public Accountants

January 31, 2012

City of Albia
Schedule of Findings
Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- I-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-11 Records of Account - The Albia Police Department maintains the accounting records and bank statements pertaining to two different bank accounts. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be recorded on the Clerk's records.

Response – We will review this situation.

Conclusion - Response accepted.

- I-C-11 Accounting Structure – Instances were noted where receipts and disbursements were not always properly classified in the general ledger.

Recommendation – The City should implement procedures to ensure all receipts and disbursements are properly classified in the general ledger.

Response – We will also work on the proper classification of receipts and disbursements.

Conclusion – Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2011

- I-D-11 Accounting Procedures – Some City bank accounts cut off around the 25th of every month, and other City bank accounts cut off at the end of the month. The City attempts to reconcile its accounting records with the various bank account cut off dates. Based on this procedure, part of the City's books are balanced as of approximately the 25th of every month, with the rest of the City's books balanced as of the end of every month. This process is very difficult to understand and is confusing.

Recommendation – The City reconcile its accounting records with the month-end bank statement balances.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- I-E-11 Library Procedures – The Library receives monies from memorials, donations, the State of Iowa, and from miscellaneous fees. Library monies are not timely deposited, currently the monies are normally deposited approximately once per month. In addition, Library monies on hand are taken home at night by the Librarian for safekeeping. Also, an adequate written record is not maintained which documents the amount of unspent Library memorial monies, by memorial, at any one time.

Recommendation – Library monies should be deposited when cash and checks on hand exceed \$100. In addition, Library monies should not be taken home at night by the Librarian. Also, written records need to be maintained documenting the amount of unspent Library memorial monies, by memorial, at any one time.

Response – We will implement the above to the best of our ability.

Conclusion – Response accepted.

- I-F-11 Receipts – In some instances, money collected by the police department and the City Clerk is not timely deposited. There is no initial record of receipt for fees collected by the police department.

For the pool, cash register tapes which record collections were not consistently retained. The City does not analyze gross margins in relation to pool concession sales.

Recommendation – Receipts collected by the police department and City Clerk should be deposited on a timely basis, and an initial record of receipt should be maintained for all police department collections. Cash register tapes should be utilized and retained for all pool receipts. In addition, gross margins in relation to pool concessions should be analyzed for propriety.

Response – We will implement these to the best of our ability.

Conclusion – Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2011

I-G-11 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in all small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Albia

Schedule of Findings

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.
- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Warren Woolums, Volunteer Fireman	Service Equipment	\$3,051
Ray Vitko, Jr. Volunteer Fireman, Owner, Vitko's	Service Trucks	\$723

In accordance with Chapter 362 of the Code of Iowa, the above transactions with the Volunteer Fireman do not appear to represent conflicts of interest.

- II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-11 Council Minutes - Transactions were found that we believe should have been approved in the Council minutes but were not. Interfund transfers were not approved by the City Council.

A summary of all receipts was not consistently published in the newspaper. Several claims were not published in the newspaper. Some City Council minutes, and related claims, were not published until several weeks or months after the City Council meetings. Chapter 372.13(6) of the Code of Iowa requires a summary of all receipts, total expenditures from each city fund, and all claims be published in the newspaper. In addition, this same Code Section requires that the City Council minutes and related information to be published within fifteen days of the City Council meeting.

Even though the City did publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978, the salary amounts published were materially incorrect.

Recommendation - The City should implement procedures to ensure that all interfund transfers are approved by the City Council. The City should also implement procedures to ensure that total expenditures from each city fund, all claims, a summary of all receipts, and all City Council minutes are included in the newspaper publication. In addition, the City should ensure that all this information is timely published in the newspaper as required by the Code of Iowa. The individual salaries should also be published annually as required.

Response - We will implement these recommendations.

Conclusion - Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2011

- II-G-11 Deposits and Investments – The City's depository resolution does not include one depository used by the City. In addition, the depository resolution refers to an outdated Section of the Code of Iowa. The cash in bank amount exceeded the deposit resolution amount for one bank. Other than the above, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

Recommendation – The City implement procedures to ensure compliance with the Code of Iowa in relation to the City's depository resolution, which should include all depositories used by the City, references used in the resolution refer to the current Sections of the Code of Iowa, and that the deposit resolution amounts exceed the cash in bank balances.

Response – The above issues were an oversight on our part. We will implement the above recommendation.

Conclusion – Response accepted.

- II-H-11 Revenue Note – The City has not complied with the fire department revenue note resolutions.

The City's cash balance in the fire department revenue note reserve account was deficient by \$107 as of June 30, 2011.

Recommendation – The City implement procedures to ensure the fire department revenue note reserve account cash balance meets the requirements as established by the U.S. Department of Agriculture revenue note resolutions.

Response – We will implement this recommendation in the future.

Conclusion – Response accepted.

- II-I-11 Transfers – At June 30, 2011, \$6,527 was due from the Debt Service Fund to the Capital Projects Fund, \$24,901 was due from the Special Revenue, Aquatic Center Fund to the Debt Service Fund, and \$688 was due from the Special Revenue, Employee Benefits Fund to the Emergency Fund.

Recommendation – The City make the above transfers.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- II-J-11 Compliance Issues – Some general obligation bond principal and interest payments were not paid from the Debt Service Fund, as required by Chapter 384.4 of the Code of Iowa. Adjustments were subsequently made so that all general obligation bond principal and interest payments were charged to the Debt Service Fund.

The City levies a tax to pay for liability insurance coverage. The proceeds of this tax is used to pay all the costs associated with liability insurance coverage. However, the costs incurred by the sewer and airport operations for liability insurance coverage should be charged to those funds instead of the tax levy for liability insurance coverage.

City of Albia

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should ensure that all general obligation bond principal and interest payments are paid from the Debt Service Fund. Also, costs incurred for liability insurance coverage for the sewer and airport operations should be charged to those funds.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- II-K-11 Follow – Up Issues – Our review noted where individuals did not pay the City \$750 in rent for airplane hangers. Legal and publication costs incurred due to a Federal Aviation Administration grant project were not claimed as a reimbursable expense, even though these were allowable reimbursable costs that could have been charged to the grant. The City of Melrose has not paid its Library fee to the City for four fiscal years.

Recommendation – The City implement procedures to ensure all monies due to them are received, including monies from the rental of airplane hangars, reimbursements from grants, and Library fees due from the City of Melrose.

Response – We will review this and take appropriate action. In some cases, we will attempt to collect all monies due to us. However, because the issues with the legal and publication cost reimbursements were not timely followed-up on, we believe it is too late to collect these monies at this time.

Conclusion – Response accepted.

- II-L-11 Code of Ordinances – The City has not adopted its Code of Ordinance supplement in over three years. Chapter 380.8 of the Code of Iowa requires the City, to adopt by resolution, the Code of Ordinance supplement on at least an annual basis.

Recommendation – To ensure compliance with the Code of Iowa, the City should implement procedures to ensure the Code of Ordinances supplement is adopted by resolution on at least an annual basis.

Response – Our prior City Attorney took care of this on his own. We realize that this is the City's responsibility to do this on an annual basis, and we will implement this recommendation.

Conclusion – Response accepted.

- II-M-11 Procedural Issues – An instance was noted where the City paid a claim based off a statement and not from an invoice. Weight tickets which document tons of asphalt paid by the City were not consistently retained. An instance was noted where the City paid sales tax on a purchase.

Recommendation – The City should implement procedures to ensure all claims are paid from invoices and not from a statement. Also, weight tickets should be obtained and retained for all asphalt purchases. In addition, the City should implement procedures to ensure sales taxes are not paid on purchases.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2011

- II-N-11 Compliance Issues – An IRS-1099 Misc. form was not issued as required. It appears the amount paid to the State of Iowa for the 3rd quarter sales tax was incorrect. The City has not turned over old uncashed checks to the State of Iowa, as required by Chapter 556 of the Code of Iowa.

Recommendation – The City issued IRS 1099-Misc. forms as required. In addition, the City implement procedures to ensure the sales tax amount paid to the State of Iowa is correct. Also, old uncashed checks should be turned over to the State of Iowa, in accordance with the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- II-O-11 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and required retention in this manner to include an image of both the front and back of each cancelled check. The Police Department retains electronic images of the front of cancelled checks, but not the back of cancelled checks.

Recommendation – The Police Department retain an image of both the front and back of each cancelled check as required.

Response – The Police Department will request that the back of the checks be included with the bank statement.

Conclusion – Response accepted.

- II-P-11 Construction Projects – No liquidated damages were assessed on a contractor, as required by the contract. For two construction projects, no change orders were approved for the difference between the original contract amount and the actual amount paid to the contractor.

Recommendation – The City implement procedures to ensure liquidated damages are assessed on future construction projects, if appropriate. In addition, change orders should be approved for all differences between the original contract amount and the actual amount paid to the contractor.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.